G. P. DVP

CA2ON
TR 20
-A56
c.2

Government
Publications

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The Board was pleased to be able to respond quickly to the rapidly changing needs of plan members and employers in 1993. The strength of the OMERS plan lies in its commitment to securing the pension promise for plan members.

ANNUAL REPORT * 1993

Ontario Municipal Employees Retirement System

The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. OMERS also manages the pension plans of Ryerson Polytechnic University and the Colleges of Applied Arts and Technology.

A contributory defined benefit pension plan, OMERS is financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund. Some 1,120 municipalities, local boards and school boards participate in the OMERS plan, which is governed by a Board appointed by the Ontario Government. Nine members of the Board are employees of participating employers, two members are elected or appointed officials of municipalities or local boards, one member is an OMERS pensioner, and one member is a Provincial official.

As our mission states, OMERS:

- provides appropriate and secure pension benefits for plan members while keeping member and employer contribution rates reasonable and stable,
- prudently invests the funds for long term growth at acceptable risk levels to meet plan liabilities and the needs of members and retirees,
- is operated by and for municipal employees, retirees and employers in a highly effective manner,
- distributes timely and useful pension information to plan members, retirees and participating employers, and
- promotes the interests of plan members, retirees and employers to the Province and various pension regulatory agencies.

Working together for your retirement

Message from the Chair

The recession of the past several years has been very hard on municipalities and local boards in Ontario. Declining revenues, greater demand for social services and a public hostile to further tax increases have forced local governments to downsize in an effort to reduce costs. In 1992 the OMERS Board began monitoring the effects of this trend on the plan. Early in 1993 the Board designed a programme of employer-paid enhanced early retirement benefits that would assist retiring members while helping employers reach reduction targets without adversely affecting the plan as a whole.

In June the Ontario Government, in an effort to further reduce public service costs across the Province, introduced the "Social Contract." The Board and its actuary studied the probable effect on the plan of reduced or frozen wages among members and concluded that the actuarial surplus would increase over time as a result of the Social Contract. In addition, 1993 Fund returns were well ahead of actuarial projections. The Board made use of a portion of the projected actuarial surplus to develop several provisions, in effect for the duration of the Social Contract period, that will help employers and members in meeting this new challenge.

The Board was pleased to be able to respond quickly to the rapidly changing needs of plan members and employers. The strength of the OMERS plan lies in its commitment to providing secure and appropriate pension benefits, at reasonable contribution rates, for the employees of Ontario's local governments.

In 1993 we welcomed David Griffin of the Peel Regional Police Association and Roger Richard, Superintendent of Business and Treasurer of The Lennox and Addington County Board of Education, to the Board. We thank departing Board members and past Chairs Andreas Arkeveld and Dale Allan for their years of service to OMERS, and wish them well in their future endeavours.

Allan Reeve, President and C.E.O. of OMERS since 1974, retired in June of 1993. Mr Reeve had served OMERS in a variety of capacities from its inception in 1963, overseeing tremendous growth and development in an ever-changing pension environment. The Board extends best wishes to Mr Reeve for a happy and fulfilling retirement.

Our new President and C.E.O., Dale E. Richmond, joined OMERS in August 1993. Mr Richmond comes to us from the Municipality of Metropolitan Toronto where, as Chief Administrative Officer since 1985, he was responsible for the overall administrative efficiency and effectiveness of the Metropolitan Corporation. His public service career has included positions as the Commissioner of the Department

of Management Services, Deputy Commissioner of Roads and Traffic, and Director of Economic and Policy Research for the Chief Administrative Officer's Department for Metro, as well as work with the Regional Municipality of Sudbury, the City of Calgary and the Province of Nova Scotia.

The Board welcomes Mr Richmond to OMERS. We look forward to working closely with him as we face new challenges in the coming years.

Anne Dubas

Anne Dubas
Chair

Message from the President

In 1993, for the first time in its history, OMERS had two presidents as Allan Reeve retired and I took over as President and C.E.O.

This was a turbulent year in which to plunge into the work of the pension plan. As the Board moved swiftly to meet the challenges of downsizing followed by the Social Contract, I gained great insight into the complexities of our operations and the meaning of our mission and values.

The investment discipline OMERS pursues was handsomely rewarded in 1993. Stimulative monetary policies, moderate inflation and improving corporate earnings in an environment of slow but solid economic growth brought about an exciting period of substantial gains in the financial markets. With investment returns and net pension contributions the investments of the consolidated OMERS Fund grew by 26.9% in 1993, reaching $20.1 billion. The Fund is structured to provide the returns required to meet the plan's long term liabilities, and its disciplined approach provides steady long term growth.

The reshaping of our information systems to meet the demands of the future is an ongoing project. The major current item, the redevelopment of the membership system, will take several years to complete. Every aspect of plan management, from investment tracking to serving our members, employers and pensioners, is affected by our ability to handle information; it is critical that we maintain the highest ability in this area.

I have been pleasantly impressed by the working environment at OMERS. Our function is to ensure delivery of the promised pension for plan members while keeping member and employer contribution rates reasonable and stable. All the OMERS staff demonstrate a strong commitment to this mission and a real awareness of the OMERS corporate values: to "provide high quality service to all our clients," and to "treat each other with respect, fairness, trust, and dignity."

Assuming the mantle of leadership of OMERS is a challenging and exciting experience. I look forward to meeting the challenge, with the help of our skilled and highly professional staff and our dedicated Board.

Dale E. Richmond
President and C.E.O.

Five Year Review of Plan Data

	1993	1992	1991	1990	1989
Employers					
Municipalities	**538**	538	536	541	532
School boards	**134**	135	131	134	134
Other local boards	**448**	448	447	445	442
	1,120	1,121	1,114	1,120	1,108
Contributing Members					
by employer					
Municipalities	**95,462**	94,334	92,870	89,645	85,228
School boards	**53,076**	53,079	52,107	49,570	46,768
Other local boards	**41,638**	42,289	42,361	41,323	39,002
Inactive groups	**21**	89	129		
	190,197	189,791	187,467	180,538	170,998
by sex					
Female	**91,001**	89,612	86,903	81,940	76,135
Male	**99,196**	100,179	100,564	98,598	94,863
	190,197	189,791	187,467	180,538	170,998
by normal retirement age					
Age 65	**167,082**	166,571	164,306	157,831	151,650
Age 60	**23,115**	23,220	23,161	22,707	19,348
	190,197	189,791	187,467	180,538	170,998
Terminated members who have elected a deferred pension	**7,947**	7,769	7,444	7,107	6,300
Number of pensioners by type of pension					
Normal retirement	**22,538**	21,967	21,297	20,577	19,739
Early retirement	**16,165**	14,511	12,994	11,760	10,383
Disability pension	**2,743**	2,654	2,546	2,447	2,257
Spouses and children	**11,987**	11,278	10,494	9,886	9,308
	53,433	50,410	47,331	44,670	41,687
Total membership comprising					
Active members, inactive members and pensioners	**251,577**	247,970	242,242	232,315	218,985
Number of members enrolled	**8,112**	10,933	16,532	22,673	22,306
Number of members terminated	**7,706**	8,609	9,603	13,133	12,161
Net increase in membership	**406**	2,324	6,929	9,540	10,145

RESPONDING TO CHANGE

Financial pressures on local governments have increased steadily over the past two years as burgeoning costs and shrinking revenues have accompanied a deepening recession. Beginning in March 1992, the OMERS Board looked at the effect of "downsizing" – reductions in the labour force – on the plan, and developed ways in which OMERS could assist employers and members.

In April 1993, the Board received Government approval for its employer-paid early retirement "window" benefit package, the Type 7 Supplementary Downsizing Agreement. The benefits were designed to permit employers who were downsizing to offer enhanced early retirement pension options to eligible members for a period of up to two years.

Social Contract

The "Social Contract," a legislated payroll reduction measure for the broader public service, was introduced by the Ontario Government in April 1993. The Board, in its response to this new challenge, was unanimous in its desire to help preserve the jobs of plan members.

With the assistance of the plan's actuary, the Board studied the impact of reduced or frozen wages over the three year Social Contract period, as well as the effect of downsizing. The results of the study indicated that the Board could develop provisions to help members and employers during the Social Contract period.

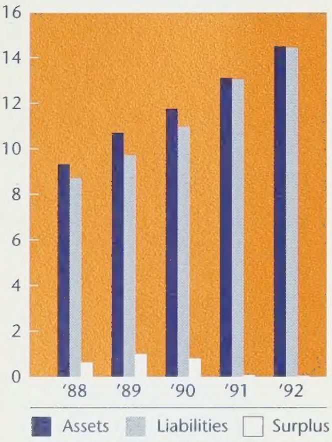
The Board therefore allocated $200 million to pay for supplementary downsizing retirement benefits where employers intend to use downsizing savings to help meet their Social Contract obligations. The benefits were also expanded to include enhanced early retirement benefits applicable to members with a normal retirement age of 60.

The Type 7 Supplementary Downsizing Agreement allows older workers to retire with security and dignity, thereby reducing the need to lay off younger members. This flexible package directs resources where members and employers most need them.

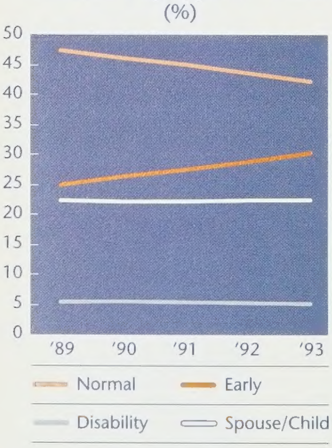
The OMERS Regulation was also amended to allow the plan to cover member and employer contributions for up to 12 Social Contract unpaid leave days or an equivalent 5% wage reduction per Social Contract year, at a projected cost of about $150 million.

Other Regulation amendments, effective June 14, 1993 to the end of the Social Contract period, will allow employers to share the member cost of purchasing approved leave periods, including temporary layoffs, and will permit "phased-in" retirement.

Actuarial Assets vs Minimum Liabilities
($ Billions)



Pensioners by Type of Pension
(%)



THE ACTUARIAL VALUATION

The OMERS actuarial valuation at December 31, 1992, conducted by The Wyatt Company, indicates a surplus of $10 million. This valuation does not include the effect of Social Contract conditions or the initiatives the OMERS Board undertook in response to the Social Contract in 1993.

Actuarial Valuation Results

as at December 31	*(Millions)*	
	1992	1991
Actuarial Assets	**$14,600**	$13,095
Actuarial Liabilities	**14,590**	13,024
Actuarial Surplus	**10**	71

Reduced or frozen wages under the Social Contract, coupled with low inflation and robust investment returns over the next few years should provide sufficient funding for the Board's Social Contract initiatives.

PENSION INCREASE

Pensioners whose pensions began on or before December 1, 1992 received an indexed increase of 1.33% on January 1, 1994, equal to 70% of the increase in the Consumer Price Index for the year September 1992 to September 1993. They also received an ad hoc increase of 0.57%, bringing the full pension increase to 100% of the inflation rate.

Ad hoc increases have historically been recommended by the Board and approved by the Ontario Government. The Government made a commitment in 1993 to change the OMERS Act, when the Act is next amended, to allow the Board to implement ad hoc increases, plan surplus permitting, without seeking Government approval.

COST-EFFECTIVENESS

OMERS has been instrumental in developing comparative data on operating costs for pension administration and investment management programmes in the pension industry. Our objective in participating in this project has been to develop measurable standards that will help us study the relationship between operating costs and business activities within OMERS and between OMERS and other pension organizations.

Using an activity-based costing approach, we have compiled direct and indirect operating costs for each core administration and investment programme. This helps us determine appropriate operating cost levels more effectively when there are fluctuations in such variables as the number of members, the volume of activity, or investment market values.

The database also helps us compare our costs to those of similar pension

Five Year Review of Financial Data

$ Millions	**1993**	1992	1991	1990	1989
Investments*					
Ontario debentures	**1,297.8**	1,303.7	1,301.3	1,143.3	1,205.4
Marketable securities	**18,791.3**	14,529.7	13,490.9	11,318.2	11,117.4
	20,089.1	15,833.4	14,792.2	12,461.5	12,322.8
Assets*					
For basic plan benefits	**17,778.1**	14,004.8	13,091.3	11,139.8	11,163.0
For supplementary benefits	**139.3**	136.3	128.2	117.0	109.1
For managed plans	**2,361.4**	1,840.5	1,719.3	1,462.0	1,466.9
	20,278.8	15,981.6	14,938.8	12,718.8	12,739.0
Investment income earned					
Basic plan	**1,417.2**	815.4	763.4	783.3	916.0
Supplementary benefits	**8.4**	8.3	9.2	11.3	9.7
Managed plans	**186.6**	106.3	101.4	106.0	122.6
	1,612.2	930.0	874.0	900.6	1,048.3
Contributions received for					
Basic plan current service	**890.0**	878.1	764.6	683.3	590.9
Past service	**11.6**	11.5	18.2	35.5	19.7
Supplementary benefits	**0.6**	0.3	0.8	1.6	1.5
	902.2	889.9	783.6	720.4	612.1
Payments to members					
Pensions paid	**414.3**	372.6	327.9	278.5	244.6
Contributions and interest refunded	**43.5**	37.4	42.7	53.7	51.2
Transfers to other plans	**5.6**	12.9	13.2	5.3	4.1
	463.4	422.9	383.8	337.5	299.9
Administrative expenditures and recoveries					
Pension programme					
Gross	**16.5**	16.6	14.0	12.6	10.7
Less fee recoveries	**1.9**	1.7	2.0	0.8	0.7
Net	**14.6**	14.9	12.0	11.8	10.0
Investment programme	**16.6**	15.6	14.4	12.7	9.7
	31.2	30.5	26.4	24.5	19.7
Total fund annual rates of return					
Dollar-weighted return on book value	**10.2%**	6.4%	6.7%	7.9%	10.4%
Time-weighted gross return on market value	**23.7%**	3.9%	14.5%	-3.4%	16.4%

*at market value as at December 31

organizations participating in the project. It allows us to adjust for each plan's corporate objectives and administrative environment. We have found, through this comparison, that our core pension and investment programme costs are in line with those of other major pension plans in Canada.

INFORMATION SYSTEMS

Our ability to serve our members, employers and pensioners, to maintain contribution and benefit records and to monitor our investments effectively is dependent on information systems. We are constantly upgrading and improving our systems.

We began redesigning our membership system in 1993. This complex project, which encompasses all the services needed to administer our member and employer records and activities, is expected to take several years to complete. The redeveloped system will help us improve the delivery of service to members and employers.

MANAGED PLANS

OMERS manages, for a fee, the pension plans of Ryerson Polytechnic University and the Ontario Colleges of Applied Arts and Technology (CAAT). The Ryerson Retirement Pension Plan served 1,333 active members and paid $3 million to 295 pensioners in 1993. The Ryerson plan has $203 million invested with the OMERS Fund.

By the end of 1993 the CAAT Pension Plan had 17,857 active members and had paid $34 million in benefits to 3,794 pensioners. The CAAT plan has over $2.1 billion invested with the OMERS Fund.

CORPORATE GOVERNANCE

OMERS believes that effective corporate governance will result in enhanced returns for the Fund.

In 1993 we published our *Proxy Voting Guidelines*, a booklet expressing our general views on corporate governance for the management and boards of those companies in which the Fund invests. The booklet also outlined specific proxy voting recommendations. We believe that the voting of proxies is a significant aspect of the Board's duty to protect the interests of the beneficiaries of the plan, and we make every effort to ensure that our proxies are being voted in accordance with our published guidelines.

We have also developed a formal approach to the analysis of under-performing companies in the Canadian equity portfolio. In 1993 we applied this approach to two specific cases. We will continue to monitor and measure the effectiveness of this process.

Consolidated Investment Assets

Market value as at December 31 (000's)		1993	1992
Fixed Income Investments			
Cash and short term		**$655,526**	$856,673
Ontario debentures		**1,297,821**	1,303,672
Marketable bonds		**2,748,663**	1,467,918
Private debt		**208,999**	277,614
Mortgages:	• Residential - insured	**725,063**	840,206
	• Commercial - uninsured	**1,036,568**	936,322
Total Fixed Income Investments		**$6,672,640**	$5,682,405
Equity Investments			
Stocks:	• Canadian indexed	**$1,441,313**	$1,038,453
	• Canadian active	**6,355,758**	4,677,957
	• Foreign indexed	**1,591,420**	476,297
	• Foreign active	**1,999,703**	2,153,272
Total Stocks		**11,388,194**	8,345,979
Private equities		**181,900**	159,273
Total Equity Investments		**$11,570,094**	$8,505,252
Real Estate		**$1,846,368**	$1,645,696
Total Investments		**$20,089,102**	$15,833,353

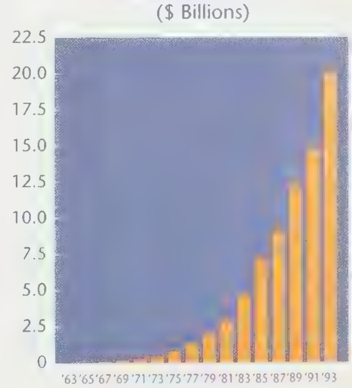
THE FUND

Financial markets, driven by stimulative monetary policies, moderating inflation and improving corporate earnings, had an outstanding year in 1993. Global investors fared very well, although growth lagged in France and Germany, and the Tokyo stock market performed poorly in response to Japan's political and economic problems.

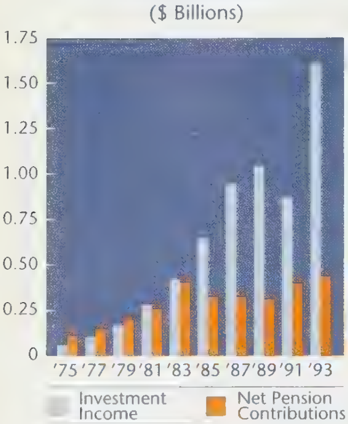
In North America interest rates continued their downward trend, although at a slower pace than in previous years. With interest rates at levels not seen in decades, investors channelled funds into equities despite high valuation levels.

Canadian economic growth was not as strong as in previous recoveries, but 1993 saw a healthier economy helped by increasing US demand for cars and housing. Canada's merchandise trade surplus widened as exports reached record levels. Real Gross Domestic Product (GDP) growth for the year was 2.4%, up from 0.7% in 1992, despite

OMERS Investments
($ Billions)



Net Funds Available for Investment
($ Billions)



Asset Mix
as at December 31, 1993

Cash and Short Term	3%
Bonds	20%
Mortgages	9%
Private Debt	1%
Canadian Stocks	39%
Foreign Stocks	18%
Private Equities	1%
Real Estate	9%

restrained consumer spending. The TSE 300 posted a return of 32.6%, beating the New York, London and Tokyo exchanges. The Canadian dollar rose and fell in response to the political tides of an election year, declining about 4.4% to average US 77.8¢ over the year.

Through investment growth and net pension contributions the investments of the consolidated OMERS Fund reached $20.1 billion by the end of 1993. The Fund returned 23.7% in the year, before adjustment for investment operating costs of approximately 0.1%.

Fund Performance

The OMERS Fund is structured to provide returns that will meet the plan's long term liabilities. Our asset mix targets of 50 - 60% in equities, 25 - 35% in fixed income, and 10 - 15% in real estate were reviewed and confirmed in 1992. This mix will help ensure that the Fund is appropriately invested to achieve its long term growth objective.

Mechanisms have been put in place to better monitor and adjust the allocation of funds. Strict investment discipline has provided steady long term growth, and will continue to do so.

To monitor the performance of our investments and those responsible for managing them, very specific standards, or benchmarks, have been adopted for segments of the portfolio. For example, the target performance for our marketable bonds is the ScotiaMcLeod Long Term Bond Index plus 0.25%, for externally managed Canadian equities the target is the TSE 300 plus 1.5%, and we expect returns on our international equities to exceed those of the Salomon Brothers Global Equity (excluding Canada) Index.

Long term target growth for the total Fund is 4.25% above the increase in the Consumer Price Index (the rate of inflation) each year. Actively managing these investments should produce an additional 0.75% return over the long term. The Fund achieved a return of 23.7% in 1993, well above the target return of 6.0%, bringing its four year average annual rate of return to 9.2% compared to the target rate of 7.4%.

Canadian Equities

Our Canadian equities are held in a variety of portfolios defined by the characteristics of the investments held or by the management style.

The Canadian "core" portfolio, which consists of actively managed mid to large capitalization stocks, is the largest at $5.1 billion. The portfolio had an excellent year in 1993, returning 33.0% compared to a total return of 32.6% for the TSE 300. Its average return over four years was 6.2% compared to 5.7% for the TSE 300.

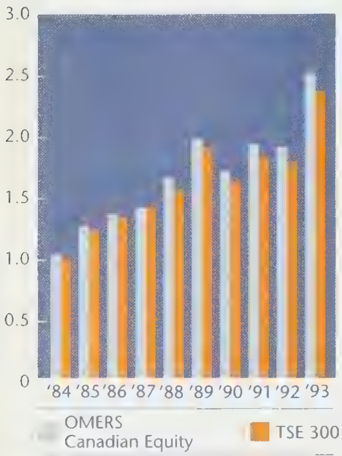
Fund Performance Compared to Indices

	1 year	4 year	10 year
Marketable bonds	**21.7%**	16.4%	14.5%
ScotiaMcLeod Long Bond Index	**22.1%**	15.5%	15.0%
Index bonds	**22.6%**	—	—
BFGFA Long Government Bond Index	**22.1%**	—	—
Ontario debentures	**19.5%**	14.7%	14.5%
(not applicable)	—	—	—
Mortgages	**13.5%**	12.8%	13.0%
BFGFA 5-Year Canada Bond Index	**14.8%**	13.2%	—
Private debt	**17.8%**	8.0%	12.0%
BFGFA 5-Year Canada Bond Index	**14.8%**	13.2%	—
Total Fixed Income	**16.7%**	13.6%	13.5%
ScotiaMcLeod Universe Bond Index	**18.1%**	14.3%	13.4%
Core fund	**33.0%**	6.2%	10.0%
TSE 300 Index	**32.6%**	5.7%	9.0%
Small capitalization fund	**36.7%**	14.2%	—
Burns Fry Model Small Cap Index (weighted)	**48.3%**	9.3%	—
Private equities	**28.5%**	(1.8%)	4.6%
TSE 300 Index	**32.6%**	5.7%	9.0%
Total Canadian Stocks	**32.3%**	6.2%	9.7%
TSE 300 Index	**32.6%**	5.7%	9.0%
Foreign stocks	**32.5%**	13.2%	14.8%
Salomon Brothers Global BMI (excluding Canada)	**25.1%**	8.4%	—
Real estate	**2.7%**	(0.1%)	—
Russell Canadian Office & Retail Property Index (adjusted)	**(6.0%)**	(3.2%)	—
Total OMERS Fund	**23.7%**	9.2%	11.8%
Consumer Price Index	**1.7%**	3.1%	3.8%
Consumer Price Index + 4.25%	**6.0%**	7.4%	8.1%
Investment cost ratio	**0.13%**	0.15%	0.15%

BFGFA stands for Burns Fry Gifford Fong Associates

Small capitalization equities, particularly in resources and energy, were exceptional performers again in 1993. The OMERS small capitalization fund, which strives for good performance with a moderate risk profile, posted a return of 36.7% in 1993, with a four year return of 14.2%. This fund is one of the largest of its kind in Canada, with 1993 price appreciation and cash allocations bringing

OMERS Canadian Equity
(Cumulative Return)



Global Distribution of Total Fund
% of Investments at Market Value as at December 31, 1993

Canada	**80.6%**
USA	**7.4%**
Europe	**5.1%**
Asia & Pacific	**6.3%**
Central / South America	**0.6%**

it to more than $356 million in total assets by year end. Although the exceptionally strong performance of small capitalization stocks as a group is not expected to continue through 1994, OMERS believes in the investment merits of selected small companies in our portfolio.

More of the Canadian equity index fund was internally managed in 1993, leaving about $475 million under external management. The combined internally and externally managed Canadian equity index fund return for the year was 32.8%, slightly above the total return for the TSE 300.

With a return of 28.5% in 1993, the private equity portfolio's performance showed significant improvement over that of past years. We will continue to focus on sectors of the economy that offer strong growth potential.

Foreign Equities

Foreign equity holdings had reached $3.6 billion, or about 17.9% of the total Fund by year end. Both active and passive foreign portfolios are now largely externally managed.

Our actively managed international equity portfolio, excluding the United States, returned 49.7% in 1993, outperforming the Salomon Brothers Europe and Pacific Broad Market Index which returned 35.9%. The Tokyo stock market performed poorly in 1993 despite deep interest rate cuts, a stimulative fiscal policy and public pension fund buying to support the market. For most of the year OMERS held about half the normal index weight in Japan while overweighting the smaller Pacific Rim markets, notably Hong Kong. This helped the performance of the portfolio.

During the year we converted our internally managed U.S. portfolio from active to passive management to achieve a more consistent investment performance. Our S&P 500 index fund, which returned 14.7%, virtually matched the index, while the U.S. mid-cap fund, with returns of 11.4% for the six months ended December 31, 1993, was 16 basis points ahead of its benchmark.

At year end, our combined foreign equity index fund was valued at $1.6 billion. Of this, $1.2 billion was invested in the U.S. and the balance was divided about equally between Europe and Pacific funds, which returned 31.6% and 39.1% respectively.

Fixed Income

Fixed income markets world-wide saw good returns in 1993 as inflation remained under control. New foreign buying of Canadian bonds followed the federal election. Yield spreads between Canadian and U.S. Government bonds

narrowed. Short rates declined 315 basis points and long rates dropped 140 basis points, both significant changes.

Our fixed income investments, which include actively and passively managed Canadian marketable bonds, Ontario debentures, mortgages, and private debt (term loans) formed 33.2% of the Fund's assets at year end.

In its first full year after the portfolio was restructured with a long term orientation, our marketable bonds returned 21.7%, compared to 22.1% for the comparable ScotiaMcLeod Long Term Bond Index. The portfolio's four year average return was 16.4%, compared to 15.5% for the index.

Our new Canadian indexed bond fund was well structured, with a total return of 22.6% closely matching the Burns Fry Long Government Index at year end.

The use of bond options and futures within the bond fund has been researched, and these derivatives will be employed in 1994 when an opportunity or a specific need arises.

The conservative approach to mortgage lending OMERS has maintained over the years has rewarded us with a portfolio of high quality mortgages that returned a very satisfactory 13.5% in 1993. The strength of our mortgage portfolio allowed us to exploit advantageous refinance opportunities and to secure new investments at a significant premium which, combined with declining rates over the year, produced large market value gains in 1993. We will continue our present strategy of pursuing quality commercial opportunities at premium rates as they become available.

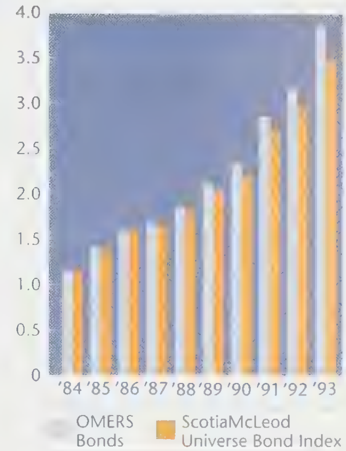
The private debt portfolio returned 17.8% in 1993, handily outperforming its benchmark Burns Fry 5-Year Bond Index. Maturities, redemptions and amortization reduced the size of the portfolio, and new investment activity remained low as few attractive investment opportunities arose.

Real Estate

OMERS Realty Corporation is a wholly owned subsidiary of OMERS, incorporated in 1989 to manage a high-quality, well diversified real estate portfolio. Properties are purchased without debt financing, wholly or in partnership with other institutions or developers, and are professionally managed on our behalf.

The portfolio now holds interests in 35 properties comprising some 9.4 million square feet of prime office and retail space, with an average lease rate of 91.5%. OMERS Realty continued its acquisition programme in 1993, adding a 50% interest in each of Toronto's Yorkdale Shopping Centre, Kelowna's

OMERS Marketable Bonds
(Cumulative Return)



Real Estate
(Market Value by Location)

Ontario	**73.5%**
Quebec	**2.6%**
Alberta	**10.4%**
British Columbia	**13.5%**

Orchard Park and Vernon's Village Green regional shopping centres. Holdings in Vancouver's Oceanic Plaza, Marine Building and Guinness Tower were also expanded.

At the end of 1993 the portfolio had a market value of $1.8 billion, about 9.2% of the OMERS Fund's investment assets. Real Estate returned 2.7% in 1993, compared to 1.5% in 1992 and 0.4% in 1991. The prolonged period of depressed real estate prices has allowed OMERS Realty to build a portfolio of very high quality properties at attractive prices.

Outlook

A dramatic reduction in Canada's inflation and interest rates during the past 10 years has led to high returns in bonds, mortgages and other fixed income instruments, where lower rates contributed to substantial capital gains.

In 1994 we anticipate seeing inflation reach the lowest rate since 1961. With such low inflation and renewed weakness in the Canadian dollar, interest rates are unlikely to go much lower; in fact, we may have already seen the low point in the interest rate cycle.

Without lower interest rates to power fixed income returns, and with a clear, albeit modest, economic recovery and improved corporate earnings under way, the OMERS asset mix policy, which favours equities over fixed income, is likely to serve us well.

OMERS will continue the process of diversification of the Fund in 1994. The inclusion of growth and small capitalization managers in our externally managed Canadian equity programme will increase the diversification of our management styles and compliment our in-house managers' value-oriented style. We will also take advantage of the increase in the foreign property limit to 20% of the cost of our assets to launch an internally managed foreign bond programme. Equity holdings will be further diversified in emerging markets, including those in Latin America and the Pacific basin.

Finally, plans are under way to use more Canadian and foreign index futures, swaps and other derivative instruments to increase diversification and manage risk. Derivatives offer us a cost-effective way to hedge exposure in an equity or fixed income market and to expand the array of tools available to OMERS in its disciplined management of the Fund's asset mix.

Actuarial Cost Certificate

As at December 31, 1993

For the Ontario Municipal Employees Retirement Board

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1992 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The actuarial valuation of OMERS as at December 31, 1992 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion, the data is sufficient and reliable for the purposes of actuarial valuation.

In our opinion, the assumptions adopted for our actuarial valuation of OMERS are appropriate, and the methods employed are consistent with sound actuarial principles. Nonetheless, the experience of OMERS in the future may be different from the actuarial assumptions, and may result in gains or losses which will be revealed in future actuarial valuations.

The results of the actuarial valuation disclosed total Actuarial Liabilities of $14,590.202 million in respect of benefits accrued for service prior to December 31, 1992, including the effect of an ad hoc adjustment to pensions as at January 1, 1993. The Actuarial Assets at that date were $14,599.919 million indicating an actuarial surplus of $9.717 million.

The results of the actuarial valuation also indicated that the existing levels of member and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1993 taking into account amendments made to the Plan up to December 31, 1993. Further, we have calculated the Actuarial Assets at December 31, 1993.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1993 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Respectfully submitted

THE WYATT COMPANY

Martin Brown

Martin J.K. Brown, F.I.A., F.C.I.A.

Fellow, Canadian Institute of Actuaries

March 25, 1994

Auditors' Report

KPMG

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1993 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Toronto, Canada
March 25, 1994

Consolidated Statement of Net Assets

December 31 (000's)	**1993**	1992
Assets		
Investments (note 2)	**$20,089,102**	$15,833,353
Long term receivables (note 3)	**61,847**	98,218
Contributions receivable	**79,202**	82,560
Accrued income	**153,023**	130,480
	20,383,174	16,144,611
Liabilities		
Due to administered pension plans (note 4)	**2,361,410**	1,840,466
Accrued liabilities	**243,627**	299,290
	2,605,037	2,139,756
Net Assets (note 5)	**$17,778,137**	$14,004,855

Signed on behalf of the Board,

Member　　　Member

Consolidated Statement of Changes in Net Assets

Year Ended December 31 (000's)	**1993**	1992
Increases in Net Assets		
Contributions (note 6)	**$ 902,188**	$ 889,856
Investment income (note 7)	**1,417,172**	815,367
Unrealized market appreciation of investments	**1,948,439**	0
	4,267,799	1,705,223
Decreases in Net Assets		
Unrealized market depreciation of investments	**0**	338,304
Benefits (note 8)	**463,373**	422,915
Administrative expenditures (note 9)	**31,144**	30,485
	494,517	791,704
Increase in Net Assets	**3,773,282**	913,519
Net assets at beginning of year	**14,004,855**	13,091,336
Net Assets at End of Year	**$17,778,137**	$14,004,855

Notes to Consolidated Financial Statements

Year ended December 31, 1993

(000's)

GENERAL

The Ontario Municipal Employees Retirement System (OMERS) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the Ontario Municipal Employees Retirement System Act (OMERS Act). The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the Ontario Pension Benefits Act, Registration #C006725.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual contributory earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The Pension Benefits Act of Ontario (PBA) requires that participating employers must fund the benefits determined under the plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability benefits, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the OMERS Act and Regulation or by contacting OMERS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and OMERS proportionate share of the assets, liabilities, and operating income of real estate properties jointly owned with others.

Investments

Investments are recorded as of the trade date and are stated at market value. The change in the difference between market value and cost of investments at the begin-

Year ended December 31, 1993 (Continued)

(000's)

ning and end of each year is reflected in the statement of changes in net assets as unrealized market appreciation/depreciation of investments.

Market values of investments are determined as follows:

(i) Short term deposits are recorded at cost.

(ii) Bonds, debentures, equities and resource properties are valued at year end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparative securities, independent asset appraisals and financial analysis.

(iii) Real estate, comprising primarily income producing properties, is carried at appraised values determined annually by an independent appraiser in accordance with generally accepted appraisal practices and procedures, based mainly on discounted cash flows for a ten year period. In performing the appraisals, certain assumptions are made with respect to future economic conditions and rates of return. The firm of independent appraisers used is Jones Lang Wootton Canada Inc. (1992 - Drivers Jonas (Canada) Ltd.).

(iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk.

Investment income, which is recorded on the accrual basis, includes dividends, interest income, and real estate operating income as well as capital gains and losses which have been realized on investments.

Foreign Currency Translation

The market values of foreign currency denominated investments included in the statement of net assets are translated into Canadian dollars at the year end rate of exchange. Gains and losses arising from this translation are included in unrealized appreciation/depreciation of investments.

Foreign currency denominated transactions, as well as cost amounts included in Note 2 to the financial statements, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

1. RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS

The actuary is appointed by the Board of OMERS. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's

Notes to Consolidated Financial Statements

Year ended December 31, 1993 (Continued)

(000's)

opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of OMERS financial position, results of operations and changes in financial position as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuaries for the actuarial liabilities as disclosed in the notes to the financial statements in respect of which the actuaries have given an opinion. The auditors' report outlines the scope of their examination and their opinion.

2. INVESTMENTS

	1993		1992	
	Market Value	**Cost**	Market Value	Cost
Cash and short term deposits	**$ 655,526**	**$ 655,526**	$ 856,673	$ 856,673
Canadian bonds and debentures	**4,046,484**	**3,716,894**	2,771,590	2,737,692
Private debt	**208,999**	**220,535**	277,614	293,045
Mortgages	**1,761,631**	**1,597,810**	1,776,528	1,673,302
Canadian equities	**7,797,071**	**6,224,194**	5,716,410	5,649,643
Non-Canadian equities	**3,591,123**	**2,773,032**	2,629,569	2,213,742
Real estate	**1,846,368**	**2,054,774**	1,645,696	1,766,116
Resource properties	**44,666**	**43,566**	38,015	42,944
Private equities	**137,234**	**129,965**	121,258	135,967
	$20,089,102	**$17,416,296**	$15,833,353	$15,369,124

Canadian bonds and debentures include Province of Ontario debentures having a market value of $1,297,821 and a cost of $1,163,525 (market $1,303,672 and cost $1,293,025 in 1992), bearing a weighted average interest rate of 9.18% (9.07% in 1992), and maturing at various dates through December 31, 2006 ($129,500 matured December 31, 1993).

Year ended December 31, 1993 (Continued)

(000's)

At December 31, 1993, the Fund held the following investments each having a market value or cost exceeding 1% of the market value or cost of total investments:

	Number of Investments	1993 Aggregate Market Value	1993 Aggregate Cost
Canadian equities	6	**$1,488,922**	**$1,033,989**
Real estate	3	**570,080**	**650,991**
		$2,059,002	**$1,684,980**

Real estate investments above include ownership interests in the following properties all of which are located in Toronto, Ontario: BCE Place (Canada Trust Tower), Water Park Place, and One Financial Place.

3. LONG TERM RECEIVABLES

Under the terms of the OMERS Act and Regulation certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long term receivables to be paid, with interest, over a period not to exceed fifteen years.

4. DUE TO MANAGED PENSION PLANS

The managed pension plans which form part of the Fund are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at market value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

5. NET ASSETS

The actuarial valuation was conducted as of December 31, 1992 and has been extrapolated to December 31, 1993. The projected unit credit method, prorated on services, and certain funding assumptions were used in the valuation and the extrapolation.

Notes to Consolidated Financial Statements

Year ended December 31, 1993 (Continued)

(000's)

Investments are valued at market value as at December 31, 1993 for financial statement purposes, as disclosed in note 2. The actuarial value of net assets has been determined using an actuarial formula based on market values over the last five year period. The objective of this process is to smooth out the effects of market volatility by averaging market values while reflecting long term historical investment trends.

The actuarial present value of accrued pension benefits includes benefits for active members, pensioners and deferred vested pensioners.

The extrapolation of the actuarial valuation to December 31, 1993 has taken into account amendments made to the plan up to December 31, 1993. The 1992 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1992.

	1993	1992
Market value of net assets at end of year	**$17,778,137**	$14,004,855
Market value adjustment for actuarial purposes	**(1,229,137)**	595,145
Actuarial value of net assets at end of year	**16,549,000**	14,600,000
Actuarial present value of accrued pension benefits at beginning of year	**$14,590,000**	$13,024,000
Ad hoc increases to pension benefits	**27,000**	16,000
Interest accrued on benefits	**1,258,000**	1,126,000
Benefits accrued	**993,000**	869,000
Benefits paid	**(414,000)**	(373,000)
Experience gains	**(205,000)**	(72,000)
Actuarial present value of accrued pension benefits at end of year	**$16,249,000**	$14,590,000
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	**$ 300,000**	$ 10,000

6. CONTRIBUTIONS

	1993	1992
Members	**$438,195**	$430,169
Employers, current service	**438,195**	430,169
Employers, long term receivables and interest thereon (note 3)	**11,612**	11,460
Transfers from other pension plans	**5,188**	11,841
Other purchased service	**8,415**	5,936
Unreduced early retirement benefits	**583**	281
	$902,188	$889,856

Notes to Consolidated Financial Statements

Year ended December 31, 1993 (Continued)

(000's)

7. INVESTMENT INCOME

	1993	1992
Short term deposits	**$ 39,891**	$ 41,221
Canadian bonds and debentures	**273,828**	241,566
Private debt	**28,820**	24,079
Mortgages	**176,497**	194,411
Canadian equities	**179,187**	187,603
Non-Canadian equities	**62,293**	59,733
Real estate	**125,503**	109,190
Resource properties	**3,320**	1,533
Private equity	**3,841**	2,914
	893,180	862,250
Realized capital gains	**719,032**	67,764
	1,612,212	930,014
Less income credited to:		
Managed pension plans	**(186,654)**	(106,368)
Provision for supplementary retirement benefits	**(8,386)**	(8,279)
	$1,417,172	$ 815,367

8. BENEFITS

	1993	1992
Members' pensions	**$ 414,345**	$372,576
Members' contributions plus interest refunded	**43,473**	37,455
Transfers to other pension plans	**5,555**	12,884
	$ 463,373	$422,915

Notes to Consolidated Financial Statements

Year ended December 31, 1993 (Continued)

(000's)

9. ADMINISTRATIVE EXPENSES

	1993	1992
Personnel services	**$18,421**	$17,410
Transportation and communication	**864**	1,235
Actuarial services	**497**	620
Audit services	**350**	312
Legal services	**413**	376
Other professional services	**345**	408
Occupancy costs and municipal taxes	**3,906**	3,806
Systems development purchased services	**1,361**	1,500
Other purchased services	**4,308**	3,387
Equipment and depreciation	**1,658**	1,798
Materials and supplies	**916**	1,288
	$ 33,039	$ 32,140
Less: Management fees from managed pension plans	**(1,895)**	(1,655)
	$31,144	$30,485

Senior Officers and Members of the 1994 Board

Members of the Board
Chair
Anne Dubas
Public Health Nurse, City of Toronto

1st Vice Chair
Gary R. Mugford
Firefighter, City of Toronto

2nd Vice Chair
Joanne Fulkerson
Director of Human Resources,
Thunder Bay Hydro

Past Chair
James V. Sherlock
School Trustee,
Halton Separate School Board

Nancy J. Bardecki
Director, Municipal Finance Branch,
Ministry of Municipal Affairs

Fayne Bullen
Alderman,
City of Orillia

David A. Griffin
Administrator,
Peel Regional Police Association

Wasim Hassan
Director Utility Practices,
Municipal Electric Association

Gerry W. Lawson
Commissioner of Finance and
Treasurer, Regional Municipality of
Hamilton-Wentworth

Susan O'Gorman
Public Health Nurse,
York Regional Public Health Department

Shirley Peebles
Social Worker,
Algoma District Social Services

Roger H. Richard
Superintendent of Business and
Treasurer,
The Lennox & Addington County Board
of Education

Donald W. Ross
Retiree

Investment Committee
Chair
Gerry W. Lawson

Vice Chair
Fayne Bullen

Management Committee
Chair
Wasim Hassan

Vice Chair
Donald W. Ross

Pension Committee
Chair
Shirley Peebles

Vice Chair
Susan O'Gorman

Senior Officers
Dale E. Richmond
President and C.E.O.

Michael E. Beswick
Senior Vice President,
Pension Division

R. Wayne Gladstone
Senior Vice President,
Administration Division

Robert L. Sillcox
Senior Vice President,
Investment Division

M. Jane Williams
Senior Vice President,
Human Resources Branch

Advisors to the Board
Actuary
The Wyatt Company

Auditors
KPMG Peat Marwick Thorne

Legal Advisor
Osler, Hoskin & Harcourt

Medical Advisor
Dr D. Lewis

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD
One University Avenue, Suite 1000, Toronto, Ontario M5J 2P1
(416) 369-2400, 1-800-387-0813

Disponible en français

ISSN 0707-9982

Printed on Recycled Paper